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Iowa Department of Revenue

To: Michael Marshall, Secretary of the Senate
Margaret Thomson, Chief Clerk of the House

From: Mark R. Schuling, Director, Iowa Department of Revenue

Regarding: Tax Credits Tracking and Analysis System 2006 Annual Report

Date: December 29, 2006

As required by 2006 Iowa Acts, House File 2521, page §18, the Iowa Department of Revenue has prepared a report documenting progress in developing the Tax Credit Tracking and Analysis System and is submitting one printed copy and one electronic copy to the Secretary of the Senate and the Chief Clerk of the House.

Tax Credits Tracking and Analysis System
2006 Report to the General Assembly

December 2006

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Iowa Department of Revenue

Executive Summary

The Tax Credit Tracking and Analysis System (TCTAS) was originally funded during the 2005 legislative session and is focused on 1) gaining a better understanding of the role tax credits play in Iowa's tax system and 2) improving accountability for tax credit programs. Iowa has 33 tax credit programs. (See Section 6.2). In fiscal year 2006, over $197 million in tax credits were awarded. (See Table 1). In addition, there are a variety of credits that do not require a specific award to be claimed. In tax year 2004, the most recent year in which sufficient data was available for analysis, tax credits claimed totaled over $157 million. (See Table 2). The TCTAS program is a collaborative effort of state agencies with a stake in awarding tax credits, reviewing and authorizing tax credit usage, and evaluating the effectiveness of tax credits. The Iowa Department of Revenue (IDR) serves as lead agency for the program.

In recent years, the amount of tax credit awards and claims have increased with new legislation. A review of new tax credit-related provisions passed during the 2006 legislative session and in previous legislative sessions confirms the growth of tax credits. The TCTAS program will improve the State's ability to effectively track the awarding and claiming of tax credits.

The TCTAS program began in July 2005. For the remainder of 2005, work focused on studying the problem and developing an action plan for the program. The program was divided into five key issue areas:

- Program Application and Tax Form Design and Development
- Tracking Transfers and Pass-Throughs
- Database Definition
- Prototype Report Development
- Evaluation Methodologies

The primary outputs of the TCTAS program are three types of reports. Annual status reports will combine information on the awarding and usage of credits. Forecast or contingent liability reports will provide information useful for revenue estimation and budget planning. Program evaluation reports will examine the effectiveness of tax credit programs in meeting their stated goals.

In 2006, work on the TCTAS program focused on implementing the plans developed in 2005. A new tax credits schedule was developed for taxpayers claiming credits to include with their tax returns. Database and other applications were scoped, developed, tested and prepared for usage. Methods were developed for gathering additional information on the usage of tax credits after their transferred or allocation to owners of non-corporate business entities. Tracking reports were scoped and prepared, although currently available data is limited. Finally, preliminary evaluation studies were begun for the Historic Preservation Tax Incentive Program and the Earned Income Tax Credit.

Many of the activities started in 2006 will continue during 2007. The new tax credits schedule (IA148) will yield new and improved information. As additional data becomes available, tracking reports and evaluation studies will increase in number and content. Information that will become available for the first time in 2007 will yield improved analysis and forecasting on tax credits in Iowa.

1. Background

Program Objective

The Tax Credits Tracking and Analysis System program was created to provide increased accountability related to a large number of programs supported by means of special preferences included in the tax code rather than through direct annual appropriations. Recognizing the rapid growth in the creation of new tax credits and the difficulty associated with determining the impact of these credits on the State's General Fund, IDR proposed a program for improving the monitoring of the awarding and usage of tax credits. In addition, IDR's proposal provided for improved accountability for tax credit programs by requiring the evaluation of each program's effectiveness on a periodic basis.

2. Summary of Credit Awards, Claims Activity and Evaluation Activities

Credits Awarded

Iowa has two types of tax credits, automatic and awarded. Automatic credits are not capped and may be claimed by any eligible taxpayer. Awarded credits require application and a specific award in order for a taxpayer to claim the credit and may be capped or uncapped. More information about Iowa's tax credit programs is provided in Sections 6.2 and 6.6 of the report.

The amount of tax credits awarded has substantially increased between FY 2001 and FY 2006, the last year for which complete data is available. The increase is due to greater utilization of existing programs and the creation of new tax credit programs. During the past two years, over ten new tax credit programs have been created. Table 1 summarizes the growth in awarded tax credits.

Credits Claimed

Currently, only limited data on tax credit claims is available. The data is limited because many credits are aggregated on individual and corporate tax forms. Table 2 reports the tax credit claims data that is currently available. Beginning in tax year 2006, a new tax credits form (IA148) will require taxpayers to document each tax credit being claimed and this will for allow individual reporting. Overall, tax credit claims increased substantially between 2000 and 2005, especially against the individual income tax.

Substantial growth has been recorded in withholding tax credits. There are four tax credits and one adjustment that can be claimed against the withholding tax. There is also one new credit that is available beginning in 2007. Table 3 shows withholding tax credit claims since January 2005.

- New Jobs Credit (260E) provides funding to employers to train new employees through agreements with community colleges.
- Supplemental Jobs Credit increases funds available through the New Jobs Credit for employers that meet certain wage and benefit or location criteria.
- Accelerated Career Education (ACE) Credit allows employers to sponsor training slots at community colleges.
- Housing Assistance Credit allows businesses to offer down payment or rental assistance to employees in new jobs.
- Targeted Jobs Credit, a new credit which will begin in 2007, provides funding for urban renewal projects for the benefit of employers through agreements with pilot project cities.
- Adjustments allow for administrative changes.

Table 1. Tax Credit Awards by Fiscal Year

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Accelerated Career Education Credits[1]	$684,059	$1,147,310	$2,999,259	$3,900,872	$5,814,485	$6,000,000	?
Agricultural Assets Transfer Credit	--	--	--	--	--	--	?
Assistive Device Credit	$0	$2,500	$0	$0	$0	$0	$0
Economic Development Region Revolving Fund Credit	--	--	--	--	--	$0	$0
Endow Iowa Credit	--	--	--	$1,003,773	$2,000,000	$2,000,000	$2,000,000
Enterprise Zone Program[2]	?	?	?	$30,251,550	$59,035,626	$98,845,980	?
High Quality Job Creation Program	--	--	--	--	--	$49,234,285	?
Historic Preservation Tax Incentive Program[3]	$2,400,000	$2,400,000	$2,400,000	$2,400,000	$2,370,000	$6,400,000	$6,400,000
Iowa New Job Training Program Credits	$38,567,500	$32,955,750	$25,470,000	$26,651,500	$58,379,000	$34,860,000	?
New Capital Investment Program[2]	?	?	?	$21,071,641	$18,641,271	--	--
New Jobs and Income Program[2]	?	?	?	$40,433,473	$49,249,311	--	--
Renewable Energy Tax Credit	--	--	--	--	--	$0	?
School Tuition Organization Credit	--	--	--	--	--	--	?
Soy-Based Transformer Fluid Credit	--	--	--	--	--	--	?
Targeted Jobs Credit from Withholding	--	--	--	--	--	--	?
Venture Capital Credit-Qualified Business or Seed Capital Fund	--	--	--	--	--	$374,419	$692,035
Venture Capital Credit-Venture Capital Fund	--	--	--	--	--	$200,448	$384,600
Wage Benefit Tax Credit	--	--	--	--	--	--	?
Wind Energy Production Tax Credit	--	--	--	--	--	$0	?

Source: Awarding Agencies.

Notes:

(A) Program not yet created, or discontinued are designated by "- -".
(B) Amount not yet determined or unknown are designated by "?".

[1] ACE Program Credits were capped at $3 million per year for FY 2001 through FY 2003, $4 million in FY 2004, and $6 million per year thereafter.
[2] Data are not readily available previous to July 1, 2003 for DED programs.
[3] Funding was increased from $2.4 million per year to $6.4 million per year in FY 2006.

Table 2. Tax Credit Claims by Tax Year

	2000	2001	2002	2003	2004	2005
Total Individual Income Tax Credits	$48,279,743	$51,410,935	$72,705,744	$81,614,614	$85,666,562	$102,057,665
Child Care Credit	$6,396,628	$6,236,660	$6,160,402	$8,354,236	$8,120,963	$8,369,647
Earned Income Tax Credit	$6,142,575	$6,504,698	$8,304,908	$8,534,392	$8,902,784	$9,935,114
Tuition and Textbook Credit	$11,453,646	$12,380,363	$13,138,193	$13,772,790	$14,267,790	$15,443,580
Other Nonrefundable Credits	$23,228,165	$24,668,908	$42,394,881	$46,389,148	$49,952,062	$62,107,863
Other Refundable Credits	$1,058,729	$1,620,306	$2,707,360	$4,564,048	$4,422,963	$6,201,461

	2000	2001	2002	2003	2004*	2005*
Total Corporate Income Tax Credits	35,014,493	29,836,009	31,797,518	37,403,725	31,309,225	1,148,798
Other Credits	7,918,620	2,924,123	1,934,416	3,006,159	3,383,674	600,565
Iowa New Jobs Credit	1,833,421	1,875,350	2,242,601	2,399,543	1,529,322	8,038
Research Activities Credit	25,262,452	25,036,536	27,620,501	31,998,023	26,396,229	540,195

	2000	2001	2002	2003	2004	2005	4Q 2005-3Q 2006
Iowa New Jobs Training Program Credits[4]	NA	NA	NA	$38,012,253	$40,147,405	$43,607,777	$43,686,239

Source: IDR data.
Note: Incomplete data for tax year is indicated by "*".

[4] Data for New Jobs Training Program Credits is reported to IDR by Community Colleges. This data does not directly correspond to withholding tax credits claimed in Table 3.

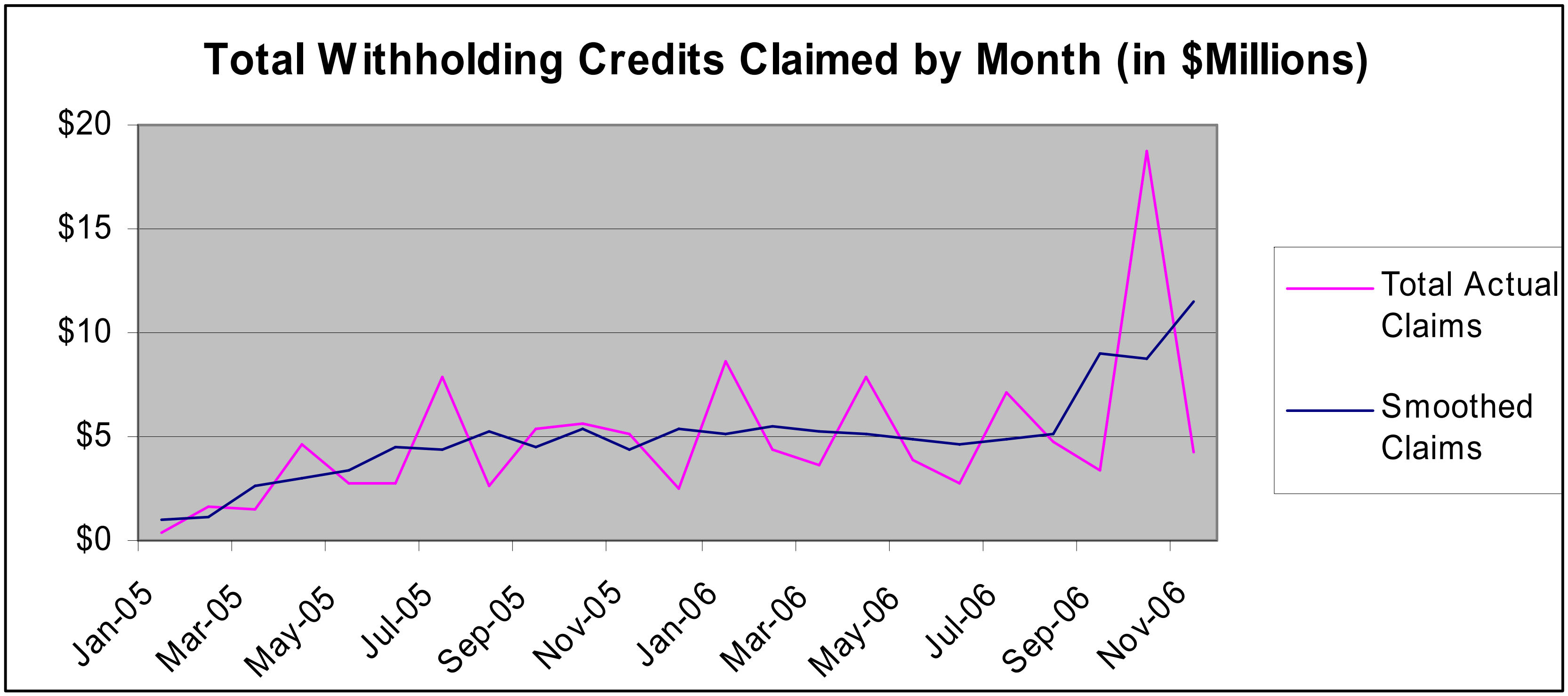
Table 3. Withholding Tax Credits Claimed by Month

Month	Number	Total Credits	New Jobs Credit	Supplemental Jobs Credit	Housing Assistance Credit	ACE Credit	Adjustments	Unexplained Difference
Jan-2005	50	$420,860	$0	$0	$0	$0	$23,931	$396,929
Feb-2005	395	$1,676,044	$10,826	$0	$0	$0	$840	$1,664,378
Mar-2005	340	$1,453,837	$37,849	$0	$0	$2,844	$4,005	$1,409,139
Apr-2005	375	$4,682,619	$1,922,877	$257,906	$0	$465,367	$61,883	$1,974,586
May-2005	441	$2,736,009	$514,271	$0	$0	$21,673	$15,443	$2,184,622
Jun-2005	386	$2,730,492	$843,954	$0	$0	$47,870	$7,669	$1,830,999
Jul-2005	451	$7,878,329	$2,825,803	$68,864	$0	$365,481	$135,653	$4,482,528
Aug-2005	408	$2,638,881	$606,614	$1,633	$0	$9,193	$21,673	$1,999,768
Sep-2005	1,060	$5,334,660	$1,220,098	$145,110	$0	$568,818	$70,292	$3,330,342
Oct-2005	639	$5,572,902	$2,997,306	$81,539	$0	$926,879	$151,176	$1,416,002
Nov-2005	504	$5,098,634	$1,183,694	$39,922	$0	$22,838	$10,391	$3,841,789
Dec-2005	487	$2,497,354	$477,240	$4,805	$0	$37,912	$43,664	$1,933,733
Jan-2006	710	$8,620,162	$3,123,107	$259,746	$0	$1,041,385	$200,879	$3,995,045
Feb-2006	532	$4,323,083	$1,467,869	$197,365	$0	$154,792	$72,462	$2,430,595
Mar-2006	520	$3,592,808	$1,188,328	$33,833	$0	$352,475	$26,087	$1,992,085
Apr-2006	605	$7,882,356	$3,831,042	$346,291	$0	$1,014,860	$154,535	$2,535,628
May-2006	666	$3,907,546	$1,238,526	$12,937	$0	$152,266	$34,394	$2,469,423
Jun-2006	537	$2,799,635	$674,046	$4,296	$0	$80,211	$27,385	$2,013,697
Jul-2006	635	$7,149,985	$3,801,222	$270,122	$0	$1,216,262	$472,314	$1,390,065
Aug-2006	687	$4,715,915	$1,865,492	$55,821	$0	$75,107	$463,514	$2,255,981
Sep-2006	595	$3,375,077	$1,140,801	$35,239	$0	$143,596	$12,291	$2,043,150
Oct-2006	805	$18,732,013	$11,186,815	$802,392	$0	$1,014,394	$983,707	$4,744,705
Nov-2006	570	$4,253,445	$1,460,222	$67,837	$0	$61,045	$771,591	$1,892,750

Source: IDR data.

Note: Data for early in 2005 are likely incomplete as taxpayers transitioned from paper filing to electronic filing.

Figure 1. Graph of Actual Withholding Tax Credit Claims With Smoothed Claims to Show Trend Line.



3. Evaluations and Recommendations

One objective of the program is to identify opportunities for improving Iowa's tax credit programs. This involves the identification of programs that are under-utilized or areas where there are inconsistencies or inefficiencies in program administration. This information will be identified through program effectiveness evaluation studies and reviews of other tax credit information.

The Housing Assistance Credit from withholding tax is a benefit provided under the Enterprise Zone Program. It allows businesses to offer down payment or rental assistance to employees in new jobs. Participating businesses have the choice of either the Housing Assistance Credit or the Supplemental New Jobs Credit. No claims for the Housing Assistance Credit have come into IDR since January 2005, when IDR began requiring withholding agents to individually report exempt amounts associated with the four different withholding tax credits. (See Table 3). Additionally, there has not been a business that has elected the Housing Assistance Credit in the past five years, according to Department of Economic Development (DED) staff.

The Assistive Device Credit provides tax credits for small businesses that install assistive devices or make workplace modifications to accommodate employees with disabilities. The program was created during the 2000 legislative session and applies to expenditures on or after January 1, 2000. Since that time, there has been only one application in 2001. There have been no additional applications according to DED staff.

While allowing employers to provide housing assistance and workplace accommodations to employees may be desirable, these programs are not effectively meeting these goals. Consequently, it may be useful for the legislature to consider options to redesign or eliminate these programs.

There are also other features of tax credits that create either inconsistency across different programs or inefficiencies for taxpayers and departments that administer the tax credits. For example, the Historic Preservation Tax Incentive Program, administered by the Department of Cultural Affairs, allows for a refund of tax credits in excess of tax liability. However, the amount of the refund is at a discounted rate which reduces the value of the credit. No other refundable credit in Iowa has to be discounted. This discount requires administrative effort and reduces the funds available to support historic preservation in Iowa.

Another issue that creates administrative burden for agencies awarding credits and for the IDR is the transfer of tax credit certificates. Typically, certificates are transferred when a tax credit awardee does not have sufficient tax liability to use all of the tax credits awarded. Some or all of the tax credits are sold to another taxpayer at a discounted price. The purchaser of the certificate surrenders the original certificate to IDR, which issues a replacement certificate. This requires administrative effort to issue the transfer tax credit certificate. It also requires administrative effort to track the tax credit compliance of an additional taxpayer. One potential option to reduce the need for transferable tax credits would be to make these credits refundable. This would directly benefit the tax credit awardee, as they would receive the full amount of tax credits awarded, rather than selling unused credits for a reduced amount.

These examples of potential policy changes have come through increased interaction between IDR and awarding agencies as a result of the TCTAS program. In future years, additional policy recommendations will be identified as additional program evaluations are completed.

4. Summary of New Legislation Enacted During 2006

During the 2006 legislative session, seven new tax credits were created. In addition, seven other bills revised existing credits. These legislative changes are summarized below.

SF2402 created the Soy-Based Transformer Fluid Credit for Utilities. This refundable credit may be claimed by electric utilities for the costs incurred by the utility for the purchase and replacement expenses relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. The costs must be incurred after June 30, 2006, and before January 1, 2008, and the costs must be incurred during the first eighteen months of the transition. The cost of the purchase and replacement cannot exceed two dollars per gallon of soy-based transformer fluid, and the number of gallons eligible for the credit cannot exceed 20,000 gallons per electric utility. The total amount of soy-based transformer fluid eligible for a tax credit cannot exceed 60,000 gallons in the aggregate. IDR issues tax credit certificates to utilities that apply and are approved for the credit.

SF2268 created the Agricultural Assets Transfer Credit. This nonrefundable credit is allowed beginning in tax year 2007 for agricultural assets that are subject to a lease or rental agreement. The renter must qualify as a beginning farmer as defined in Code section 175.12. The lease must be for a term of at least two years, but not more than five years. The tax credit equals 5 percent of the amount paid to the asset owner under the agreement or 15 percent of the amount paid to the asset owner from crops or animals sold under an agreement in which the payment is exclusively made from the sale of crops or animals.

HF2754 created the Ethanol Promotion Credit, E85 Gasoline Promotion Credit, and the Biodiesel Blended Fuel Credit. These refundable credits do not require a separate award. Effective January 1, 2009, an Ethanol Promotion Credit is available to retail dealers of ethanol blended gasoline which will replace the current ethanol blended gasoline tax credit. The amount of the tax credit is based on the pure amount of ethanol gallons sold. For example, 10 gallons of E-10 equals 1 gallon of pure ethanol. The credit is repealed on January 1, 2021. The amount of the tax credit depends on whether the retail dealer attains a biofuel threshold standard, and how many gallons of motor fuel are sold in a year. The E-85 Gasoline Promotion Credit is available to retail dealers of gasoline who sell E-85 gasoline through motor fuel pumps during the tax year. The amount of the credit is determined by multiplying the total number of E-85 gallons by the rate for that year, which is $0.25 per gallon in 2006, 2007, and 2008. After 2008, the credit declines annually until it is eliminated in calendar year 2021. The Biodiesel Blended Fuel Credit is available to retail dealers who sell biodiesel blended fuel through motor fuel pumps during the tax year. Of the total gallons of diesel fuel sold by the retail dealer during the tax year, fifty percent or more must be biodiesel fuel to be eligible for the tax credit. The tax credit applies to biodiesel blended fuel formulated with a minimum percentage of two percent by volume of biodiesel, if the formulation meets the standards of Code section 214A.2. The tax credit equals three cents multiplied by the total number of gallons of biodiesel blended fuel gallons sold during the retail dealer's tax year.

SF2409 created the School Tuition Organization Credit, beginning in tax year 2006, for 65 percent of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designed by the taxpayer. A school tuition organization must be a charitable organization in Iowa that is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code that allocates at least 90 percent of its annual revenue in tuition grants for children who reside in Iowa to allow them to attend a qualified school of their parents' choice. The school tuition organization must represent more than one school, and they can only provide tuition grants to eligible students who are members of households whose annual income does not exceed an amount equal to three times the most recently published federal poverty guidelines published by the U.S. Department of Health and Human Services. Tax credit certificates are issued by each School Tuition Organization.

HF2731 created the Targeted Jobs Credit from Withholding. A withholding tax credit is available to employers who enter into an agreement with pilot project cities approved by the Department of Economic Development. There will be four pilot project cities, each of which must contain three or more census tracts, which will be approved by the Department of Economic Development. One city will be in a county bordering South Dakota, one city will be in a county bordering Nebraska, and two cities will be in a county bordering a state other than South Dakota or Nebraska. The four project cities, approved by DED, are Burlington, Council Bluffs, Keokuk and Sioux City. An agreement cannot be entered into with a business currently located in Iowa unless the business either creates ten new jobs, each paying a wage at least equal to the average county wage, or makes a qualifying investment of at least $500,000 within an urban renewal area in the city. The withholding agreement may have a term of up to ten years. A pilot project city cannot enter into a withholding agreement with an employer after June 30, 2010. The withholding credit is equal to 3 percent of the gross wages paid by the employer to each employee under the withholding agreement.

HF2759 dealt with how fuel retailers that do not file tax returns on a calendar year basis can claim renewable fuel tax credits. These retailers may claim credits for gallons of eligible fuel sold during the appropriate calendar years, even if it will only apply to a part of the retailer's fiscal year.

HF2791 provided an increase in funds available for the Endow Iowa Credit, based on gambling tax revenues.

SF2399 doubled generation capacity eligible for Renewable Energy credits, among other modifications. One of the modifications extended the period from approval to operation from 18 months to 30 months if necessary equipment is unavailable. This modification also applied to the Wind Energy Production Credit and was also included in **SF2273**.

SF2147 and **SF2183** changed the eligibility requirements of the Enterprise Zone program. SF2147 allows businesses that are partially located in zones to be eligible for tax credits. SF2183 makes Enterprise Zone designation eligibility based on census tracts, rather than total population. It also allows for a ten-year extension of zone designation for areas meeting the distress criteria in Code section 15E.194. Finally, it extends eligibility for zone designation to areas located near transportation infrastructure.

HF 2794 eliminated the cap on the Early Childhood Development credit and eliminated the need to apply to IDR to be awarded the credit. HF2794 also required that IDR issue all transfer tax credit certificates.

5. Program Accomplishments

The TCTAS program is a collaborative effort. IDR has facilitated a variety of work groups tackling the issues associated with developing the system. Staff participating in these groups are noted in Section 6.1. The TCTAS program will document findings through three types of reports:

- Annual Status Reports
- Forecast/Contingent Liability Reports
- Program Evaluation Reports

Currently, only limited information is available for the annual status report. In the future, the annual status reports will combine information on the awarding and usage of credits. The forecast or contingent liability reports will provide information that will be useful for revenue estimation and budget planning. The first report was shared with the Revenue Estimating Conference (REC) in October 2006. These reports will continue to be improved as additional data becomes available. Program evaluation reports will examine the effectiveness of tax credit programs in meeting their stated goals and in enhancing the economy of the state and its quality of life. The first two program evaluation studies are expected to be completed during 2007.

New and Revised Forms and Schedules:
Most credits are not separately reported by taxpayers, and documentation of tax credit claims varies by credit. The program team developed a consolidated Tax Credits Schedule and instructions that taxpayers will use to claim tax credits. This form, IA148, collects information for each credit claimed by a taxpayer. This schedule will provide consistent tracking across credits and tax types. It will be in use for tax year 2006 returns. Claim data not previously available will be included on IA148, including data on carryforward, expired credits, and credits claimed via pass-through entities. The data on this form will be entered into a database for analysis. The development of the IA148 necessitated a number of adjustments on other tax forms that taxpayers use to claim credits. The specifications for the new schedule have been distributed to tax software developers. The IA148 and instructions are included in the appendix.

Database and Data Capture Applications Development:
The development of a tool to capture tax credit award data from within IDR and from other agencies is complete. The current effort is focusing on populating the database with historical award data from existing programs. Another tool was developed for data entry from a variety of tax credit schedules. This tool was used in 2006 to gather data from paper tax returns. It will also be useful for data entry from the Tax Credits Schedule (IA148) filed with paper returns in 2007, as well as continued data entry from several subsidiary tax credit forms. By the end of 2006, it is anticipated that data from tax returns that are filed electronically can be directly merged into the TCTAS database.

Award Transfers and Pass-Through Entity Tracking:
Currently, five tax credits are transferable, from the credit owner to another business entity or person. Most tax credits can be passed-through from a business to owners of the business, such as an s-corporation, limited liability company, partnership, or cooperative. These two situations make matching tax credit awards and claims difficult. Two major features will substantially increase IDR's ability to track transfers and pass-throughs of tax credits. The 2006 General Assembly passed a bill that required the IDR to issue all transfer tax credit certificates. As a result, this data can be collected at the point of certificate issue. In addition, the IA148 form includes a section that requires taxpayers claiming tax credits to specify from what entity the tax credit was received. In both cases, the awardees and the recipients will be identified anytime that a credit changes hands. The result will be a much better understanding of how and by whom tax credits are claimed.

Tracking Reports:
During 2006, two types of preliminary reports have been completed. The first report is an awards and claims status report. This report provides a summary of the amount of credits awarded the past year by program and provides cumulative awards information by tax credit program since their inception to the extent possible. In future years, data on tax credit claims will be available by credit because of increased information collected on the IA148.

The second report is a contingent liabilities report for the REC. In October 2006, a preliminary contingent liability report estimated the maximum potential impact that tax credit claims could have on General Fund revenues. In December 2006, an updated contingent liability report improved the estimates of the first report by incorporating additional data from the data entry project and additional data received on uncapped DED tax credit programs. The overview of Tax Credits Contingent Liability is included in Section 6.4 and Table 4.

Evaluation Studies:
In 2006, IDR staff began work on the first two tax credit program evaluation studies. The two credits being studied are the Earned Income Tax Credit and the Historic Preservation Tax Incentive Program. These studies include a literature review, a summary of related federal and state credit program, description of evaluation methodologies and the evaluation's results. These studies, expected to be completed during 2007, will represent the first attempts at providing evidence on the effectiveness of the tax credits studied.

<u>Planned Activities for 2007</u>

Database and Data Capture Application Enhancements:
The applications developed in 2006 will continue to be enhanced during 2007. Work has already started on developing tools for administering tax credits issued by IDR staff. Additional programs, including Renewable Energy Credits and Wind Energy Production Credits that are co-administered by IDR and the Iowa Utilities Board, will be added to this application.

Database Population and Data Capture Activities:
The mechanisms that will be used to securely transfer tax credit award data from awarding agencies to IDR will be ready for use early in January 2007. In 2007, it will be a priority to increase the number of live data files populating the database. Other data files will either be developed by the awarding agency and IDR staff or be created by applications already developed.

In 2006, a web-based tool was created to allow data entry from selected tax forms. Data was captured for tax years 2002 through 2004 in 2006. In 2007, this tool will be used to capture data from the same selected tax forms for tax year 2005. The application will also be modified for data entry of additional forms, including the new tax credit schedule, IA148.

Award Transfers and Pass-Through Entity Tracking:
Two analyses will be conducted that will provide additional information on tax credits claimed by entities other than the original awardee through the transfer and/or pass-through of tax credits. These analyses will provide information that may suggest future policy recommendations for streamlining the process for claiming tax credits.

Tracking Reports:
The ability to disseminate information from the TCTAS program will be phased in over the next year. The critical issue for reporting tools is IDR's ability to protect data confidentiality. The first phase consists of reports created manually from data pulled by IDR's Tax Research and Program Analysis Section (IDR/TR). This phase will continue until reporting tools can be identified and reports developed. The second phase will include IDR/TR creating reports using these reporting tools and providing them to awarding agencies, legislators and other interested parties. The third phase will include providing a secure reporting tool to awarding agencies, and possibly other interested parties, that will allow them to create custom queries and generate their own reports. The timing of the third phase depends on the timeline for creating a secure environment in which users are authenticated and provided access to reporting tools for which they are authorized.

Tax Expenditure Study:
IDR has begun updating its 2000 Tax Expenditure Study, which estimates state General Fund revenues foregone due to deductions, exemptions, exclusions, and credits against tax and other reductions in tax base that are tied to specific provisions in tax law. The report is expected to be completed in 2007.

6. Appendices

6.1 Lists of Participating Departments and Organizations

Inter-Agency Steering Committee

Name	Agency
Paulette Day	Workforce Development
Donna Flamm	Insurance Division
Angela Gullickson	Revenue
Amy Johnson	Economic Development
Shawn Limback	Education
Mike Lipsman	Revenue
Jim McNulty	Revenue
Margaret Munson	Utilities Board
Steve Ovel	Kirkwood Community College
Lane Palmer	Economic Development
Jack Porter	Cultural Affairs
Jeff Ward	Iowa Agricultural Development Authority
Neal Young	Revenue

Working Groups

Database Design Working Group

Name	Agency
Berry Bennett	Cultural Affairs
Ron Carrington	Revenue
Paulette Day	Workforce Development
Don Dursky	Economic Development
Leanna Gerald	Economic Development
Amy Johnson	Economic Development
Jay Munson	Revenue
Margaret Munson	Utilities Board
Nichole Warren	Economic Development
Neal Young	Revenue

Evaluation Methodologies Working Group

Name	Agency
Paulette Day	Workforce Development
Angela Gullickson	Revenue
Shawn Limback	Education
Mike Lipsman	Revenue
Steve Ovel	Kirkwood Community College
Lane Palmer	Economic Development
Lowell Soike	Cultural Affairs
Neal Young	Revenue

Forms Design and Development Working Group

Name	Agency
Dennis Bowser	Revenue
Ron Carrington	Revenue
Beth Foster Hill	Cultural Affairs
Amy Johnson	Economic Development
Mike Lipsman	Revenue
Jim McNulty	Revenue
Margaret Munson	Utilities Board
Jerry Northwick	Revenue
Neal Young	Revenue

Reports Working Group

Name	Agency
Angela Gullickson	Revenue
Mike Johansen	Economic Development
Steve Ovel	Kirkwood Community College
Jack Porter	Cultural Affairs
Neal Young	Revenue

Tracking Transfers and Pass-Throughs Working Group

Name	Agency
Ken Boyd	Economic Development
Ron Carrington	Revenue
Jim McNulty	Revenue
Larry Paxton	Revenue
Neal Young	Revenue

6.2 Tax Credit Programs Summary Table

Tax Credit Program	Usage Type	Awarded by:	Year Created
Biodiesel Blended Fuel Credit	Automatic	NA	2006
Child and Dependent Care Credit	Automatic	NA	1993
Cow-Calf Credit	Automatic	NA	1996
E-85 Gasoline Promotion Credit	Automatic	NA	2006
Early Childhood Development Tax Credit	Automatic	NA	2006
Earned Income Tax Credit	Automatic	NA	1991
Ethanol Blended Gasoline Credit	Automatic	NA	2002
Ethanol Promotion Credit	Automatic	NA	2009
Motor Vehicle Fuel Tax Credit	Automatic	NA	1975
Research Activities Credit (not doubled)	Automatic	NA	1985
S Corporation Credit	Automatic	NA	1998
Soy-Based Cutting Tool Oil Credit	Automatic	NA	2005
Tuition and Textbook Credit	Automatic	NA	1998
Accelerated Career Education (ACE) Program (260G)	Awarded	Community Colleges	2000
Iowa New Jobs Training Program (260E)	Awarded	Community Colleges	1983
Historic Preservation & CED Tax Credit	Awarded	DCA	2000
Assistive Device Credit	Awarded	DED	2000
Economic Development Region Revolving Fund Tax Credit	Awarded	DED	2005
Endow Iowa Tax Credit	Awarded	DED	2003
Enterprise Zone Program	Awarded	DED	1997
High Quality Job Creation Program	Awarded	DED	2005
New Capital Investment Program	Awarded	DED	2003
New Jobs and Income Program	Awarded	DED	1994
Agricultural Assets Transfer Credit	Awarded	Iowa Agricultural Development Authority (IADA)	2006
Venture Capital Credit—contingent credit for investments in IA fund of funds)	Awarded	Iowa Capital Investment Board (ICIB)	2002
Venture Capital Credit—investments in seed capital funds	Awarded	Iowa Capital Investment Board (ICIB)	2002
Venture Capital Credit—investments in venture capital funds	Awarded	Iowa Capital Investment Board (ICIB)	2002
Renewable Energy Tax Credit	Awarded	IUB	2006
Wind Energy Production Tax Credit	Awarded	IUB/ Supervisors	2004
Soy-Based Transformer Oil Credit	Awarded	Revenue	2006
Wage-Benefit Tax Credit	Awarded	Revenue	2005
Targeted Jobs Credit From Withholding Pilot Project	Awarded	DED/Pilot Project Cities	2006
School Tuition Organization Credit	Awarded	School Tuition Organizations (STO's)	2006

6.3 Evaluation Study Work Plans

Historic Preservation Tax Incentive Program

Task 1: Legislative Review
- 1.1 Description and History of Iowa Law
- 1.2 Description and History of Federal Historic Preservation Tax Credit
- 1.3 Description and History of Other States' Historic Preservation Tax Credits
  - 1.3.1 Identification of States with Historic Preservation Credits
  - 1.3.2 Enactment Dates for Other States' Historic Preservation Tax Credits
  - 1.3.3 Summary of Eligibility Requirements for Other States' Historic Preservation Tax Credits
  - 1.3.4 Summary of Major Provisions for Other States' Historic Preservation Tax Credits
  - 1.3.5 Bibliography of Reports and Evaluations Completed for Other States' Historic Preservation Tax Credits

Task 2: Review of Evaluation Studies and Study Methodologies
- 2.1 Overview of Evaluation Studies
- 2.2 Summary of Issues Addressed
- 2.3 Description and Critique of Evaluation Methodologies

Task 3: Description of the Usage of Iowa's Historic Preservation Tax Incentive Program
- 3.1 Summary of Awards Granted by Year, Amount Range, Project Type, and Location
- 3.2 Summary of Credits Claimed by Year, Tax Type, Claimant Type, and Residency
- 3.3 Description of Tax Credit Transfer Activity by Year, Type of Awardee, Purchaser Type, and Residency

Task 4: Evaluation Methodologies
- 4.1 Scope of Issues
- 4.2 Data Sources
- 4.3 Description of Methodologies
- 4.4 Evaluation Advisory Committee
  - 4.4.1 Advisory Committee Membership, Affiliations, and Credentials
  - 4.4.2 Role of the Advisory Committee

Task 5: Research Findings
- 5.1 Leveraging Private Investment
- 5.2 Impact on Property Values
- 5.3 Effect on Affordable Housing Options
- 5.4 Impact on Local Economic Activity
- 5.5 Historic Rehabilitation Work Done Without Tax Credits

Task 6: Recommendations

Earned Income Tax Credit

Task 1: Legislative Review
- 1.1 Description and History of Iowa Law
- 1.2 Description and History of Federal Earned Income Tax Credit
- 1.3 Description and History of Other States' Earned Income Tax Credits
  - 1.3.1 Identification of States with Earned Income Tax Credits
  - 1.3.2 Enactment Dates for Other States' Earned Income Tax Credits
  - 1.3.3 Summary of Eligibility Requirements for Other States' Earned Income Tax Credits
  - 1.3.4 Summary of Major Provisions for Other States' Earned Income Tax Credits
  - 1.3.5 Bibliography of Reports and Evaluations Completed for Other States' Earned Income Tax Credits

Task 2: Review of Evaluation Studies and Study Methodologies
- 2.1 Overview of Evaluation Studies
- 2.2 Summary of Issues Addressed
- 2.3 Description and Critique of Evaluation Methodologies

Task 3: Description and Comparison of the Usage of the Iowa and Federal Earned Income Tax Credits by Iowa Residents
- 3.1 Summarization and Analysis of Census Bureau Poverty Statistics for the State of Iowa and for the United States, 1970 – 2005
- 3.2 Summarization of Earned Income Tax Credits Claimed on Iowa Tax Returns for Tax Years 2000 – 2005
- 3.3 Summarization of Earned Income Tax Credits Claimed on Federal Tax Returns by Iowa Residents for Tax Years 2000 – 2005
- 3.4 Comparison of Iowa and Federal Earned Income Tax Credits Claimed by Iowa Residents for Tax Years 2000 – 2005

Task 4: Evaluation Methodologies
- 4.1 Scope of Issues
  - 4.1.1 Department of Revenue Defined Issues
  - 4.1.2 Department of Human Services Defined Issues
- 4.2 Data Sources
  - 4.2.1 Department of Revenue Data Sources
  - 4.2.2 Department of Human Services Data Sources
  - 4.2.3 Other Data Sources
- 4.3 Description of Methodologies
- 4.4 Evaluation Advisory Committee
  - 4.4.1 Advisory Committee Membership, Affiliations, and Credentials
  - 4.4.2 Role of Advisory Committee

Task 5: Research Findings
- 5.1 Potential Program Under-Utilization
- 5.2 Persistence of Earned Income Tax Credit Population
- 5.3 Impact of Utilization of Earned Income Credit and Other Income Maintenance Programs on Household Disposable Income
- 5.4 Fraud in Iowa's Earned Income Tax Credit Program

Task 6: Recommendations

6.4 Tax Credits Contingent Liability

One of the major purposes served by the TCTAS program is providing additional information useful for revenue estimation purposes. Table 4 attempts to forecast potential contingent liability facing General Fund Revenues due to tax credits. The amount of contingent liability for each credit is estimated in one of several ways. First, there are credits for which the estimates are based on the actual amount of credits awarded so far. Second, there are credits for which historic claims data can be forecast into future years using compound annual growth rates. Third, there are credits for which there are fiscal notes from the legislative session in which the credit was created. Fourth, projections from awarding agencies can yield estimates, especially for credits with low utilization. Fifth, there are credits for which the only estimate possible is the amount at which funding for the credit is capped. Finally, there are a few credits for which no estimate of contingent liability is possible. Section 6.6 of this report includes descriptions of each of these tax credit programs, including its citation in the Code of Iowa.

Overall, total contingent liability due to tax credits in Iowa is growing and is expected to continue to grow into the future, as shown in Table 4 and Figure 2. As with tax credit awards, this increase is due to the growth in claims for individual programs and due to an increase in the number of tax credit programs.

This information is just a first attempt to synthesize available data on the impact of tax credits on General Fund revenues. In future versions, additional information will be available. Currently a database is being developed that will merge award data and claim data. Claim data will be available in much more detail because of the new Tax Credit form (IA148). Data will be available on an individual credit level. Data on carryforward, expired credits, and credits claimed via pass-through entities, and potentially other data will be available for the 2007 Tax Credits Contingent Liabilities Brief, which will be prepared for the December 2007 Revenue Estimating Conference.

6.5 Tax Credits Data from Data Entry Project

This fall, IDR conducted a limited data entry project. The project entailed pulling paper returns for tax years 2002 through 2004 with tax credits claimed and keying selected schedules. The selected schedules focused on three tax credits: research activities credit, ethanol blended gasoline credit, and investment tax credit. The data from the project cannot be viewed as comprehensive for a variety of reasons, such as electronic filing, taxpayer noncompliance, etc. However, it does provide some limited insight.

For example, the data keyed, shown in Table 5, also shows the dollars claimed generally increasing between 2002 and 2004. Also, the investment tax credit points to another aspect of contingent liability. In many cases, credits are awarded and claimed all in one year. However, in other cases, credits in excess of tax liability are carried forward to future tax years. In the case of the investment tax credit, carryforward increased at a much faster rate than actual tax credit claims. Carryforward from this and other credits is a liability that needs to be factored into revenue estimation.

Table 4. Tax Credits Contingent Liability Projection

	History		Forecast				
Capped Programs	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Accelerated Career Education (ACE) Credits	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Cow-Calf Credit	$1,770,342	$1,770,342	$1,770,342	$1,770,342	$1,770,342	$1,770,342	$1,770,342
Economic Development Region Revolving Fund Credit	$0	$0	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Endow Iowa Credit	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Endow Iowa Gambling Revenues							
Historic Preservation Tax Incentive Program	$2,400,000	$6,400,000	$6,400,000	$6,400,000	$6,400,000	$6,400,000	$6,400,000
Renewable Energy Tax Credit[5]	$0	$0	$2,900,000	$7,400,000	$10,000,000	$10,100,000	$10,200,000
School Tuition Organization Credit	$0	$0	$2,500,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
Venture Capital Credit-Fund of Funds							
Venture Capital Credit-Qualified Business or Seed Capital Fund[6]	$0	$374,419	$692,035	$824,872	$2,094,274	$2,551,449	
Venture Capital Credit-Venture Capital Fund[6]	$0	$200,448	$384,600	$185,625	$742,740	$92,723	
Wage Benefit Tax Credit	$0	$0	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Wind Energy Production Tax Credit[5]	$0	$0	$5,300,000	$9,200,000	$11,800,000	$11,800,000	$11,800,000

[5] Based on full utilization of eligible wind-generation capacity, which is capped.
[6] Based on actual awards to date.

Table 4 Continued. Tax Credits Contingent Liability Projection

Uncapped Programs	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Agricultural Assets Transfer Credit[7]	$0	$0	$70,000	$180,000	$250,000	$330,000	$400,000
Assistive Device Credit[8]	$0	$0	$0	$0	$0	$0	$0
Child and Dependent Care Credit[9]	$8,120,963	$8,369,647	$8,831,986	$9,319,864	$9,834,692	$10,377,960	$10,951,237
Early Childhood Development Credit[10]	$0	$0	$3,240,000	$3,240,000	$3,240,000	$3,240,000	$3,240,000
Earned Income Tax Credit[9]	$8,902,784	$9,935,114	$10,937,985	$12,042,088	$13,257,642	$14,595,896	$16,069,236
Ethanol Blended Gasoline Credit							
Net Impact of Renewable Fuel Credits (Biodiesel, E-85 & Ethanol)[11]	$0	$0	$740,000	$3,410,000	$8,300,000	$9,990,000	$14,850,000
Enterprise Zone Program							
High Quality Job Creation Program (HQJCP)							
Iowa New Job Training Program Credits[12]	$43,607,777	$54,470,649	$78,503,099	$86,353,409	$94,988,750	$104,487,625	$114,936,388
New Capital Investment Program (NCIP)[13]							
New Jobs and Income Program (NJIP)[14]							
Research Activities Credit (corporate only)[9]	$34,620,953	$37,458,890	$40,529,458	$43,851,724	$47,446,322	$51,335,576	$55,543,637
Soy-Based Cutting Tool Oil Credit[15]	$0	$0	$60,000	$60,000	$0	$0	$0
Soy-Based Transformer Fluid Credit[16]	$0	$0	$120,000	$0	$0	$0	$0
Targeted Jobs Credit from Withholding[17]	$0	$0	$571,000	$1,206,000	$1,910,000	$2,690,000	$2,771,000
Tuition and Textbook Credit[9]	$14,267,790	$15,443,580	$16,394,902	$17,404,825	$18,476,960	$19,615,138	$20,823,427
TOTAL (Capped + Uncapped)	$121,690,609	$142,423,089	$199,945,407	$227,848,750	$255,511,722	$274,376,709	$294,755,268

[7] Fiscal Note on SF 2268, 2006 Legislative Session.
[8] There has only been one award since credit went into effect.
[9] Based on compound annual growth rate projection from historical data.
[10] Fiscal Note on HF 2794, 2006 Legislative Session.
[11] Fiscal Note on HF 2754, 2006 Legislative Session.
[12] Increase in FY 2007 based on change in actual collections in first five months between FY2006 and FY2007. Increase of 10 percent annually thereafter.
[13] NCIP was replaced by HQJCP on July 1, 2006, but tax credits continue to be claimed into future years.
[14] NJIP was replaced by HQJCP on July 1, 2006, but tax credits continue to be claimed into future years.
[15] Fiscal Note on SF 389, 2005 Legislative Session.
[16] Fiscal Note on SF 2402, 2006 Legislative Session.
[17] Fiscal Note on HF 2731, 2006 Legislative Session

Figure 2. Graph of Potential Contingent Liability Due to Tax Credits in Iowa

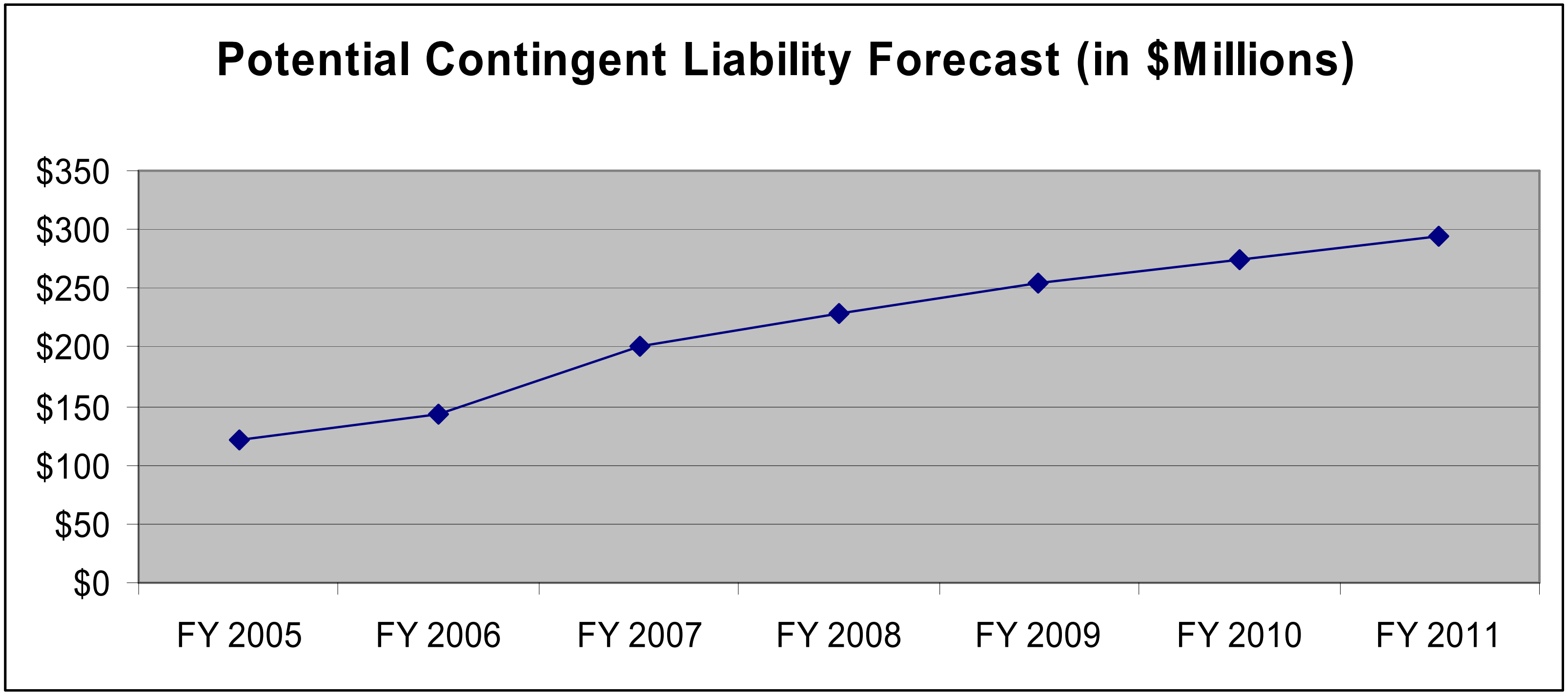


Table 5. Tax Credits Data from Data Entry Project

		2002		2003		2004	
		Number of Claims	Dollars Claimed	Number of Claims	Dollars Claimed	Number of Claims	Dollars Claimed
Research Activities Credit (Forms IA128 and IA128A)	Individual	357	$3,962,177	545	$5,816,923	478	$5,620,828
	Corporate	65	$2,314,774	54	$1,320,327	16	$234,712
	Total	422	$6,276,951	599	$7,137,250	494	$5,855,540
Ethanol Blended Gasoline Credit (Form IA6478)	Total	335	$729,082	440	$888,063	385	$1,119,719
Investment Tax Credit (Form IA3468)	Total	860	$1,154,430	719	$1,543,523	661	$2,090,829
	Carryforward		$2,228,792		$5,117,876		$8,141,642

Note: A variety of factors, including electronic filing, the level of taxpayer compliance, and other factors limited the amount of data available for this data entry project. As such, conclusions that can be drawn from the data are limited.

Source: Iowa Department of Revenue

6.6 Description of Iowa's Tax Credit Programs

Accelerated Career Education (ACE) Program: This withholding credit is administered by Iowa's Community Colleges and provides credits for employers that sponsor training slots at community colleges. Section 260G, Code of Iowa.

Agricultural Assets Transfer Credit: This credit is awarded by the Iowa Agricultural Development Authority to taxpayers that lease agricultural assets to qualified beginning farmers. Section 175.37, Code of Iowa.

Assistive Device Credit: This credit is awarded by the Iowa Department of Economic Development (DED) to taxpayers who make investments in assistive devices that allow for disability workplace accommodation. Section 422.11E, Code of Iowa.

Biodiesel Blended Fuel Credit: This credit is available to retail dealers who sell biodiesel blended fuel equal to over 50 percent of their total diesel sales. Section 422.11P, Code of Iowa.

Child and Dependent Care Credit: This credit is available to individual taxpayers who have eligible child and dependent care expenses. Section 422.12C, Code of Iowa.

Cow-Calf Credit: Eligible individual and corporation income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. Section 422.120, Code of Iowa.

E-85 Gasoline Promotion Credit: An income tax credit, on a rate per gallon sold basis, is available to retail dealers of gasoline who sell E-85 gasoline. Section 422.11O, Code of Iowa.

Early Childhood Development Credit: This credit is equal to 25 percent of the first $1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. Section 422.12C(1A), Code of Iowa.

Earned Income Tax Credit: This credit is available to individual taxpayers who qualify for the federal Earned Income Tax Credit and is 6.5 percent of the federal Earned Income Tax Credit. The Iowa credit is non-refundable. Section 422.12B, Code of Iowa.

Economic Development Region Revolving Fund Credit: This credit is awarded by DED and is equal to 20 percent of the contribution made to an economic development region revolving fund. Section 15E.232, Code of Iowa.

Endow Iowa Tax Credit: This credit is awarded by DED and is equal to 20 percent of a taxpayer's endowment gift (up to $100,000 for a single taxpayer) to a qualified community foundation. Section 15E.305, Code of Iowa.

Enterprise Zone Program: This program, administered by DED, encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191, Code of Iowa.

Ethanol Blended Gasoline Credit: Starting in 2002, a tax credit is available to service stations at which more than 60 percent of the total gasoline sold is ethanol blended gasoline. The credit is equal to two and a half cents for each gallon sold in excess of 60 percent. Section 422.11C, Code of Iowa.

Ethanol Promotion Credit: This credit will replace the Ethanol Blended Gasoline credit beginning in 2009. It will be based on the amount of pure ethanol gallons sold. Section 422.11N, Code of Iowa.

High Quality Job Creation Program: This program, administered by DED, provides tax benefits to eligible companies that create high-paying jobs and make capital investments. The program was created in 2005 and replaced the New Jobs and Income Program (NJIP) and the New Capital Investment Program (NCIP) beginning in FY 2006. Section 15.326, Code of Iowa.

Historic Preservation Tax Incentive Program: This program, administered by the Iowa Department of Cultural Affairs, provides a 25 percent tax credit for investments made in the rehabilitation of eligible historic properties. Section 404A, Code of Iowa.

Iowa New Jobs Training Program: This program, administered by Iowa's Community Colleges, assists businesses that are creating new positions with new employee training. Participating companies divert withholding taxes that would be remitted to IDR to a community college to pay for training for company employees. Section 260E, Code of Iowa.

New Capital Investment Program: This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.385, Code of Iowa.

New Jobs and Income Program: This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.326, Code of Iowa.

Renewable Energy Credit: This credit is available for a producer or purchaser of energy from a renewable energy facility approved as eligible by the Iowa Utilities Board (IUB). Section 476C, Code of Iowa.

Research Activities Credit: This credit is 6.5 percent of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal Research Activities Credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures. Section 422.10, Code of Iowa.

School Tuition Organization Credit: This credit, administered by IDR, is for 65 percent of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. Section 422.11M, Code of Iowa.

Soy-Based Cutting Tool Oil Credit: A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. Section 422.11I, Code of Iowa.

Soy-Based Transformer Fluid Credit: Electric utilities may claim this credit, administered by IDR, for the costs incurred by the utility for the purchase and replacement costs relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. Section 476D, Code of Iowa.

Targeted Jobs Credit from Withholding: This pilot program, administered by DED and four pilot project cities, provides for a withholding credit equal to 3 percent of the gross wages paid by the employer to each employee under the withholding agreement. These funds are to be used by the pilot city for an urban renewal project related to the employer. 403.19A, Code of Iowa.

Tuition and Textbook Credit: This credit is available to individual taxpayers who have one or more dependents attending grades K-12 in an Iowa school. The credit percentage is 25 percent of the first $1,000 paid for each dependent for tuition and textbooks. Section 422.12(2), Code of Iowa.

Venture Capital Credit-Fund of Funds Contingent Credit: This contingent tax credit, administered by the Iowa Capital Investment Board (ICIB), is allowed for investments made into the Iowa Fund of Funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Section 15E.66, Code of Iowa.

Venture Capital Credit-Qualified Business or Seed Capital Fund: This credit, administered by ICIB, is 20 percent of the equity investment made into a qualifying business or community-based seed capital fund. Section 15E.43, Code of Iowa.

Venture Capital Credit-Venture Capital Fund: This credit, administered by ICIB, is 6 percent of the equity investment made in a venture capital fund. Section 15E.51, Code of Iowa.

Wage-Benefit Tax Credit: This credit, administered by IDR, is based on creating new jobs with good wages and benefits. The credit is either 5 percent or 10 percent of wages (depending on total wages and benefits relative to county average wage) for up to five years, as long as the job is retained. Section 15H, Code of Iowa.

Wind Energy Production Credit: This credit is for electrical production facilities that produce electricity from wind and is approved as eligible by the local board of supervisors and the IUB. Section 476B, Code of Iowa.

Iowa Department of Revenue
www.state.ia.us/tax

2006 IA 148 Tax Credits Schedule

Name(s)	Taxpayer Identification Number (SSN or FEIN)

Part I — Nonrefundable Credits

	A Tax Credit Code (see instr.)	B Certificate Number (if applicable)	C Amount Carried Forward From Prior Years	D Current Year Amount (earned by taxpayer or received from pass-through entity)	E Total Credit Available (C+D=E)	F Amount Applied Current Year (may not exceed total tax liability)	G Expired Credit Amount	H Amount Carried Forward to Future Years (E-F-G=H)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

Part I Total (Sum of column F; enter amount on line 54 of IA1040, line 10 of IA1040C, or line 2 of schedule C1 of IA1120 or line 13 of IA 1120A)

Part II — Refundable Credits

	I Tax Credit Code (see instr.)	J Certificate Number (if applicable)	K Current Year Amount (earned by taxpayer or received from pass-through entity)
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Part II Total (Sum of column K; enter amount on line 66 of IA1040, line 14 of IA1040C, or line 3 of schedule C1 of IA1120 or line 14 of IA 1120A)

Part III — Total Credits

(Does not apply to individual income tax)

(Sum of Totals Part I and Part II; enter amount on line 17 of IA1120F, line 30 of IA1041, or the miscellaneous line of the Iowa Insurance Premium Tax Return)

Part IV — Pass -Through Entity Schedule

L Line Number from Part I or Part II Above	M Pass-Through Entity Name	N Pass-Through Entity Federal ID Number	O Taxpayer's Percentage Share of Credit Earned by Pass-Through Entity

Instructions for IA 148 Tax Credits Schedule

Attach the Tax Credits Schedule to the tax return on which tax credits are being claimed. The tax credits schedule is used to claim tax credits against individual income tax, fiduciary income tax, corporation income tax, franchise tax, and insurance premium tax liabilities. Each credit should be entered on a separate line. Also, a separate line should be used for each unique tax credit certificate number.

Part I: Nonrefundable Tax Credits

Column A: Enter the tax credit code from the table below for the credit claimed on each line.

- 02 Economic Development Region Revolving Fund Credit
- 03 Endow Iowa Credit
- 04 Franchise Tax Credit (refer to worksheet IA 147)
- 05 Historic Preservation Credit
- 06 Housing Investment Tax Credit
- 07 Investment Tax Credit (attach form IA3468)
- 08 Iowa New Jobs Credit (attach form IA133)
- 09 Minimum Tax Credit (attach form IA8801 to IA1040 and IA1041; or form IA8827 to IA1120)
- 10 Renewable Energy Credit (476C)
- 11 S Corporation Apportionment Credit (attach form IA134)
- 12 School Tuition Organization Credit
- 13 Venture Capital Credit-Fund of Funds
- 14 Venture Capital Credit-Qualified Business or Seed Capital Fund
- 15 Venture Capital Credit-Venture Capital Funds
- 16 Wind Energy Production Credit (476B)

Column B: Enter the tax credit certificate number received from the agency or organization that awarded the tax credit. Tax credits awarded before July 2006 may not have a certificate number. Several credits do not require the award of a tax credit certificate and/or number from an agency or organization. The following nonrefundable credits do not require a certificate number: franchise tax credit, minimum tax credit, and S corporation apportionment credit. If the tax credit certificate does not have a certificate number, leave blank. For non-awarded credits, leave blank.

Column C: Enter any amount carried forward from previous tax years for each of the credits being claimed.

Column D: Enter the total amount of credit you earned directly or received from a pass-through entity (see definition of pass-through entity in instructions for Part IV) during the current tax year. The table for column A indicates if a credit requires a separate form. If the credit you are claiming lists a form number, please attach that form to your tax return. If a credit is received from a pass-through entity, Part IV must also be completed for the credit.

Column E: Add column C plus column D and enter total in column E.

Column F: Enter the amount of each credit being applied to the current tax year. If credits available (the sum of column F) exceed total liability (i.e., from line 53 of the IA1040 for the individual income tax), credits are to be claimed in the order provided in Iowa Administrative Rule 701-42.23 for individual income tax and fiduciary income tax and Iowa Administrative Rule 701-52.12 for corporation income tax, franchise tax, and insurance premiums tax. (To view the text of these rules, go to www.legis.state.ia.us/ACO/IAChtml/701.htm and scroll down to 42.23 or 52.12). The total of column F may not exceed total tax liability.

Column G: If the entire credit is not claimed by the end of the carryforward period, the remaining credit expires. Enter the amount of any credit that has expired.

Column H: Enter the amount from column E less any amount from column F and/or column G.

Part II: Refundable Tax Credits.

Column I: Enter the tax credit code from the table below for the credit claimed on each line.

- 51 Assistive Device Credit
- 52 Biodiesel Blended Fuel Credit (attach form IA 8864)
- 53 Claim of Right Credit
- 54 Ethanol Blended Gasoline Credit (attach form IA6478)
- 55 E85 Gasoline Promotion Credit (attach form IA 135)
- 56 Historic Preservation Credit Discounted Refund
- 57 Refundable Investment Tax Credit (attach form IA 3468)
- 58 Research Activities Credit (attach form IA128 or Form IA128A)
- 59 Additional Research Activities Credit (attach form IA128 or form IA128A)
- 60 Soy-Based Cutting Tool Oil Credit
- 61 Soy-Based Transformer Fluid Credit
- 62 Third Party Sales Tax Credit
- 63 Wage-Benefit Credit

Column J: Enter the tax credit certificate number received from the agency or organization that awarded the tax credit. Tax credits awarded before July 2006 may not have a certificate number. Several credits do not require the award of a tax credit certificate and/or number from an agency or organization. The following refundable credits do not require a certificate number: biodiesel blended fuel credit, claim of right credit, E85 gasoline promotion credit, ethanol blended gasoline credit, research activities credit (if not doubled under an Iowa Department of Economic Development program), and soy-based cutting tool oil credit. If the tax credit certificate does not have a number, leave blank. For non-awarded credits, leave blank.

Column K: Enter the total amount of credit you earned directly or received from a pass-through entity (see definition of pass-through entity in instructions for Part IV) during the current tax year. The table for column I indicates if a credit requires a separate form. If the credit you are claiming lists a form number, please attach that form to your tax return. If a credit is received from a pass-through entity, Part IV must also be completed for the credit.

Part III: Total Credits

Enter the sum of the total boxes for Part I and Part II. This total is entered on line 17 of IA1120F, line 30 of IA1041 or the miscellaneous line of the Iowa Insurance Premium Tax Return.

Part IV: Pass-Through Entity Schedule

Businesses that are organized as pass-through entities (such as partnerships, limited liability companies, cooperatives, S corporations, etc.) earn tax credits at the business level, but the credits are claimed by individuals and businesses that are members of the ownership group. For each line in Part I or Part II with a credit received from a pass-through entity, complete a corresponding line in Part IV to indicate the source of the credits.

Column L: Enter the line number from Part I or Part II that includes credits received from a pass-through entity. This includes any carryforward (column C) claimed from credits received in prior years from a pass-through entity.

Column M: Enter the name of the pass-through entity from which credits were received.

Column N: Enter the Federal Employer Identification Number (FEIN) of the pass-through entity from which credits were received. This FEIN should be the same number provided to the awarding agency or organization. It also should be the same FEIN used to complete any required information returns (such as Form IA1065 and Schedule K-1 for partnerships).

Column O: Enter the percentage share of credits earned by the pass-through entity that you are claiming. Enter the percentage with one decimal place.

Special Instructions

Related to Individual Income and Fiduciary Tax:

Individuals using filing status 3 (married filing separately on this combined return) must complete a separate Form IA148 for each spouse with credits to claim.

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. In 2006, individuals are allowed to claim all credits except renewable energy credit, wind energy production credit, and third party sales tax credit. All credits except renewable energy credit, wind energy production credit and third party sales tax credit may also be claimed on fiduciary tax returns.

Related to Corporate Income Tax:

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. All of the credits except the claim of right credit, S corporation apportionment credit, and school tuition organization credit are allowed to be claimed on corporate income tax returns.

Related to Franchise Tax:

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. The following nonrefundable credits may be claimed against the franchise tax: economic development region revolving fund credit, endow Iowa credit, historic preservation credit, housing investment tax credit, investment tax credit, renewable energy credit, venture capital credit-fund of funds, venture capital credit-qualified business or seed capital fund, venture capital credit-venture capital funds, and wind energy production credit. The following refundable credits may be claimed against the franchise tax: historic preservation credit discounted refund, refundable investment tax credit, third party sales tax credit, and wage-benefit tax credit. The minimum tax credit is reported on line 16 of the IA1120F and will not appear on the IA148.

Related to Insurance Premium Tax:

Currently, no refunds are issued for the insurance premium tax if payments and credits exceed tax liability. For insurance companies claiming credits that are refundable for other taxes, use Part II even though credits in excess of tax liability will not actually generate a refund.

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. The following nonrefundable credits may be claimed against the insurance premium tax: economic development region revolving fund credit, endow Iowa credit, historic preservation credit, housing investment tax credit, investment tax credit, renewable energy credit, venture capital credit-fund of funds, venture capital credit-qualified business or seed capital fund, venture capital credit-venture capital funds, and wind energy production credit. The following refundable credits may be claimed against the insurance premium tax: historic preservation credit discounted refund, refundable investment tax credit, third party sales tax credit, and wage-benefit tax credit.